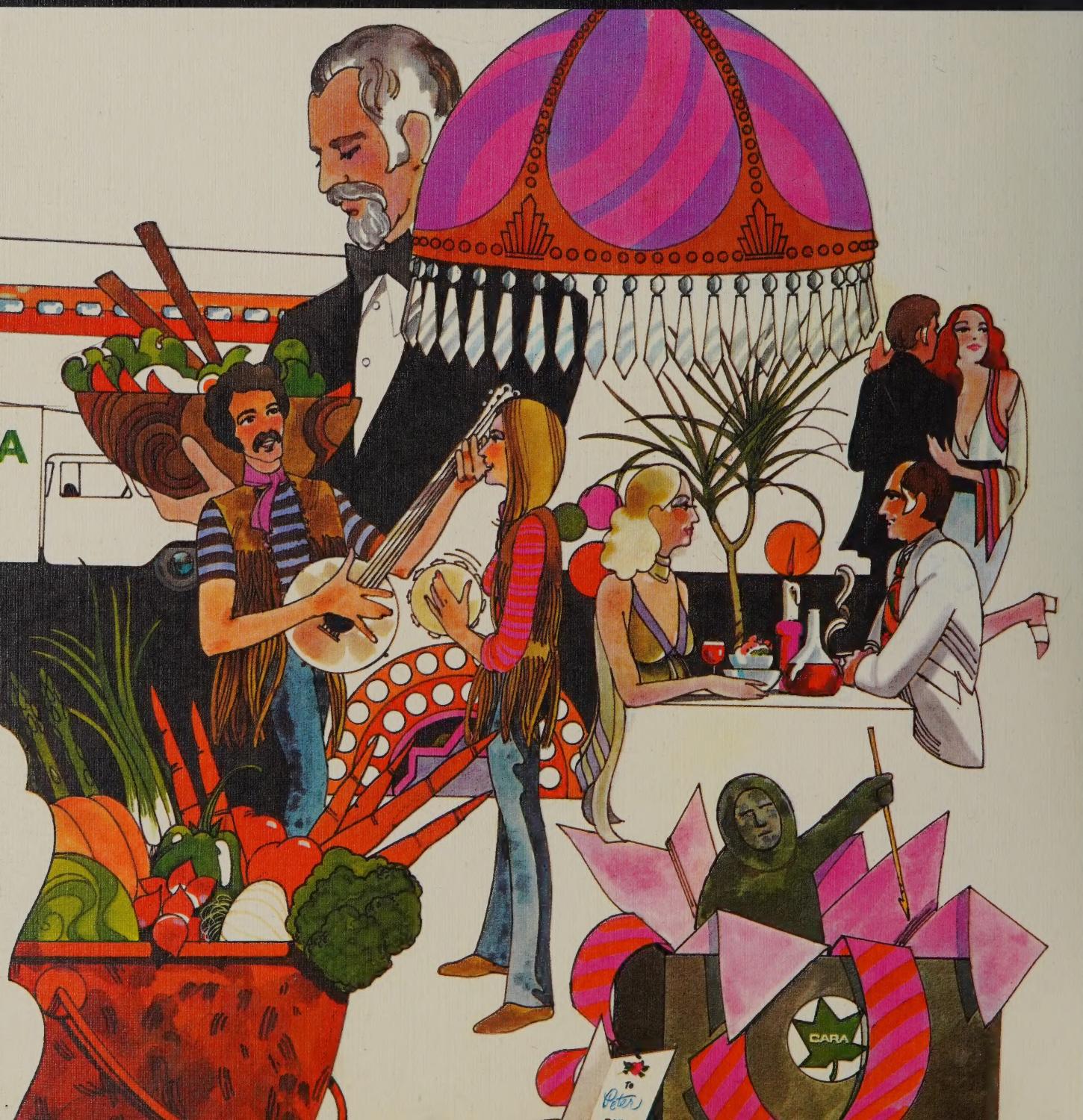


AR19

Cara Operations Limited

1972 Annual Report





AR19

Cara
Operations
Limited

Head Office
55 York Street
Toronto 1, Ont.

July
Cara
Operations
Limited

Interim
Report



For the six months
ended September 30
1972



Papa Dan's Restaurant • Place Bonaventure, Montreal



Cara Inn, Toronto International Airport

TO THE SHAREHOLDERS

Net profit for the six months ended September 30, 1972 was \$1,115,273 or 61¢ a share compared to \$589,961 or 32¢ in the corresponding period of the previous year. Sales increased to \$29,087,111, up 12.2% from \$25,932,027.

In the second quarter ended September 30, 1972, which is our peak earning period, net profit was \$767,420 or 42¢ a share compared to \$513,525 or 28¢ a share in the corresponding quarter of 1971. Sales rose during this period to \$16,054,440 from \$14,246,605, an increase of 12.7%.

Airline travel continued at a high level during the second quarter and accounted for the major share of our increased sales and earnings. The new restaurant and lounge complex in the recently opened Terminal No. 2 at Toronto International Airport operated profitably during the second quarter and is expected to make a substantial contribution to earnings once this terminal comes into full operation early in 1973.

In keeping with the general strength of the economy, demand for our services continues to be stronger than in the previous year. Assuming this favourable climate

will prevail, we anticipate that profits in the last six months will again show an improvement over the corresponding period of the previous year.

The opening of the restaurant complex in Commerce Court in downtown Toronto has been set back several weeks due to construction delays and these new units are now scheduled to open progressively from early December through to February 1973. We are optimistic as to the success and profitability of this major new undertaking.

Particular concentration is being given to the Cara Inn, which continues to suffer from the over-supply in hotel accommodation at Toronto International Airport. A new small prestige restaurant, "La Residence", was opened in September which we believe will add to the quality image and service of the hotel.

A dividend of 10¢ per share payable on December 1, 1972 to shareholders of record November 17, 1972 was declared by the Board of Directors on November 2nd.

November 2, 1972

J. Boyd Thackeray
President

CARA OPERATIONS LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT SHOWING RESULTS OF OPERATIONS

	Six months ended	
	September 30 1972	September 30 1971
SALES	\$29,087,111	\$25,932,027
PRE TAX PROFIT	2,144,755	1,179,922
TAXES ON INCOME	1,029,482	589,961
NET PROFIT	1,115,273	589,961
NET PROFIT PER SHARE61	.32
CASH FLOW PER SHARE98	.70
WORKING CAPITAL	2,162,118	2,507,663
WORKING CAPITAL RATIO	1.31	1.57
SHARES	1,837,130	1,835,830

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS

Operations:

Net Profit	1,115,273	589,961
Depreciation	645,851	609,218
Miscellaneous	30,352	82,934
Total from Operations	1,791,476	1,282,113

Other:

Stock Options Exercised	5,850	2,700
Long Term Equipment Financing	30,586	289,614
	1,827,912	1,574,427

APPLICATION OF FUNDS

Purchase of fixed assets less disposals	1,181,272	672,617
Reduction of long term debt	507,634	623,644
Miscellaneous	41,503	7,679
	1,730,409	1,303,940

INCREASE IN WORKING CAPITAL	97,503	270,487
WORKING CAPITAL MARCH 31	2,064,615	2,237,176
WORKING CAPITAL SEPTEMBER 30	\$ 2,162,118	\$ 2,507,663

Note: The above statements are unaudited.



Directors and Officers

Paul J. Phelan, *Chairman of the Board*

J. Boyd Matchett, *President*

Thompson M. Plewes, *Vice-President Finance*

Lawrence Hynes

Paul McLaughlin

Charles A. Phelan

R. E. Phelan

Jean S. Prieur

John G. Weir

Gunter Otto, *Vice-President Airline Services Division*

Daniel D. Phelan, *Vice-President Urban Restaurant/Inn Division*

John T. Argyris, *General Manager Air Terminal Restaurant Division*

A. A. McIsaac, *General Manager Retail Stores Division*

V. C. Kennedy, *Director Customer Services Airline Services Division*

Walter G. Fraser, *Secretary-Treasurer*

S. Russell Knox, *Comptroller*

L. H. Muir, *Director of Purchasing*

Head Office: 55 York Street, Toronto 1, Ontario

Transfer Agent: The Royal Trust Company,
Toronto, Montreal, Winnipeg, Vancouver

Auditors: McDonald, Currie & Co., Toronto, Ontario

Cara Operations Limited and Subsidiary Companies

Financial Highlights

	1972	1971
Sales	\$48,190,972	\$44,220,933
Net Profit	670,111	812,396
% of Sales	1.4%	1.8%
Per Share	0.36	0.44
Working Capital	2,064,615	2,237,176
Working Capital Ratio	1.36	1.50
Dividends per Share	0.05	0.05
Fixed Asset Additions	1,139,224	4,407,281
Fixed Assets	9,526,689	9,695,998

Message from the Chairman of the Board



Your company is now into its 90th year as host to the traveller in Canada. The past fiscal year established record sales in excess of \$48 million. The major expansion and renewal of operating facilities completed in recent years now provide us with a strong base on which to grow.

Although we are not yet achieving our full earnings potential, we are making progress, and the problems encountered in such recent ventures as the Cara Inn and new restaurant complexes in shopping centres are gradually being overcome.

With the total dedication of effort we receive from our operating personnel, our management, and our directors, we look forward this year to an improvement in results.

A handwritten signature in cursive script that reads "Paul J. Phelan".

Chairman of the Board

June 21, 1972

Report to the Shareholders



The year ended March 31st, 1972, was in many respects a difficult one for your Company. Although sales increased by 9% to \$48,190,972, profit declined to \$670,000, down 17½% from \$812,000 the previous year. This decline is attributed mainly to depressed business conditions during the first and second quarters, continuing operating losses during the year from the new Cara Inn, and the Air Traffic Controllers strike in the last quarter.

The improved economic conditions and upturn in our business during the last five to six months was, unfortunately, offset by the adverse effect on our operations of the Air Traffic Controllers strike, which closed all major Canadian Airports for a 12-day period in January.

Operating results for the Cara Inn improved during the last quarter of the year. Arrangements have been completed for the disposal of three unprofitable suburban Zumburger units in Toronto. All operating divisions experienced increased business activity during February and March and finished the year on a strong note.

Some further restructuring of Company organization was put into effect at the end of the third quarter, whereby Air Terminal restaurants were set up under a separate operating division. There

are now four operating Divisions — Airline Services, Air Terminal Restaurants, Urban Restaurant/Inn and Retail Stores. Each of these Divisions is headed by either a Vice President or General Manager with broad operating and profit responsibility. The new organization will permit more specialization and senior management concentration in the main activities of our business.

Capital expenditures during the year were reduced to \$1,100,000 from the previous year's high of approximately \$4,000,000. The only major new undertaking during the year, as reported earlier, was a complex of restaurants and lounge in the Calgary Market Mall which opened in August, 1971. Working capital at the year end was maintained at over \$2 million, and net long-term debt was reduced by approximately \$1 million to \$2,277,000.

During the current year new development projects and renovations will require a total capital commitment of approximately \$2,825,000. This includes a restaurant and cocktail lounge complex in the new Air Terminal No. 2 at Toronto International Airport, to open in late June, and a major complex of restaurants in the Commerce Court in downtown Toronto, scheduled for opening in the fall.

Our business to date in the first

quarter of the current year continues to be buoyant and supports our expectations that net earnings will show a marked improvement over this past year.

We gratefully acknowledge the continued support and loyalty of our hardworking employees and executives, as well as our appreciation to our customers for their patronage during the year.

On behalf of the Board



President

June 21, 1972

Cara Operations Limited and Subsidiary Companies

Consolidated Balance Sheet

March 31, 1972

Assets

CURRENT ASSETS

	1972	1971
Cash and short term investments	\$ 3,526,850	\$ 2,560,533
Accounts receivable	2,394,181	2,166,327
Income taxes recoverable	—	287,726
Inventories — at the lower of cost or net realizable value.	1,785,862	1,562,195
Prepaid expenses	38,155	57,646
Land held for sale — at net realizable value.	112,100	115,500
	<u>7,857,148</u>	<u>6,749,927</u>

FIXED ASSETS (note 1)

Land, buildings and equipment	6,789,701	7,224,310
Leasehold interests — at cost less amortization	<u>2,736,988</u>	<u>2,471,688</u>
	<u>9,526,689</u>	<u>9,695,998</u>

OTHER ASSETS — at cost less amounts written off

Due from affiliated companies	35,334	35,334
Deferred charges (note 2)	303,073	409,779
Excess of cost of investment over equity in business acquired	<u>328,520</u>	<u>328,520</u>
	<u>666,927</u>	<u>773,633</u>

\$18,050,764 \$17,219,558

Signed on behalf of the Board

J. B. and ~~John~~

Director

T. M. Plewes

Director

Liabilities

CURRENT LIABILITIES	1972	1971
Bankers acceptances	\$ 300,000	\$ —
Trade accounts payable	2,402,650	1,645,838
Accrued salaries and wages	1,031,032	845,263
Accrued rents	250,283	144,367
Income taxes	141,543	—
Current portion of long-term debt	1,199,470	1,445,926
Other liabilities	<u>467,555</u>	<u>431,357</u>
	<u>5,792,533</u>	<u>4,512,751</u>
LONG-TERM DEBT (note 3)	<u>2,277,642</u>	<u>3,398,237</u>
DEFERRED INCOME TAXES	<u>1,071,500</u>	<u>980,500</u>

Shareholders' Equity

CAPITAL STOCK

Authorized —

3,000,000 common shares without par value of which 47,400 are reserved for allotment under a stock option plan (note 5)

Issued and fully paid —

1,835,830 (600 issued for \$2,700 cash during the year)	4,289,709	4,287,009
---	-----------	-----------

RETAINED EARNINGS	<u>4,619,380</u>	<u>4,041,061</u>
	<u>8,909,089</u>	<u>8,328,070</u>
	<u>\$18,050,764</u>	<u>\$17,219,558</u>

Auditor's Report to the Shareholders

We have examined the consolidated balance sheet of Cara Operations Limited and subsidiary companies as at March 31, 1972 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto
May 23, 1972

McDONALD, CURRIE & CO.
Chartered Accountants

Cara Operations Limited and Subsidiary Companies

Consolidated Statements
for the year ended March 31, 1972

Earnings

	1972	1971
SALES	\$48,190,972 ✓	\$44,220,933 ✓
OPERATING AND ADMINISTRATIVE EXPENSES	<u>45,305,192</u>	<u>41,376,301</u>
PROFIT BEFORE THE FOLLOWING ITEMS	2,885,780	2,844,632
INTEREST FROM INVESTMENTS	<u>88,554</u>	<u>91,645</u>
	<u>2,974,334</u>	<u>2,936,277</u>
PROVISION FOR DEPRECIATION	1,281,234	942,092
INTEREST ON LONG-TERM DEBT	<u>382,989</u>	<u>266,789</u>
	<u>1,664,223</u>	<u>1,208,881</u>
EARNINGS BEFORE INCOME TAXES	1,310,111	1,727,396
PROVISION FOR INCOME TAXES	<u>640,000</u>	<u>915,000</u>
NET EARNINGS FOR THE YEAR	<u>\$ 670,111 ✓</u>	<u>\$ 812,396 ✓</u>
NET EARNINGS PER SHARE	<u>.36 ✓</u>	<u>.44 ✓</u>

Retained Earnings

BALANCE — BEGINNING OF YEAR	\$ 4,041,061	\$ 3,320,326
Net earnings for the year	<u>670,111</u>	<u>812,396</u>
	<u>4,711,172</u>	<u>4,132,722</u>
Dividends	<u>91,792</u>	<u>91,661</u>
BALANCE — END OF YEAR	<u>\$ 4,619,380</u>	<u>\$ 4,041,061</u>

Source and Use of Funds

Source	1972	1971
Net earnings for the year	\$ 670,111	\$ 812,396
Items not requiring an outlay of funds		
Depreciation	1,281,234	942,092
Deferred income taxes	91,000	500,300
Loss (profit) on sale of fixed assets	10,730	(35,218)
Amortization of deferred charges	126,362	34,465
	2,179,437	2,254,035
Long-term equipment financing	400,442	1,717,606
Bank loan	—	1,700,000
Proceeds from sale of fixed assets	16,569	352,158
Stock options exercised	2,700	9,000
	2,599,148	6,032,799
 Use		
Purchase of fixed assets	1,139,224	4,407,281
Reduction of long-term debt	1,521,037	1,670,777
Dividends	91,792	91,661
Miscellaneous	1,772	90,928
Pre-opening expenses	17,884	292,282
	2,771,709	6,552,929
DECREASE IN WORKING CAPITAL	172,561	520,130
WORKING CAPITAL – BEGINNING OF YEAR	2,237,176	2,757,306
WORKING CAPITAL – END OF YEAR	\$ 2,064,615	\$ 2,237,176

Cara Operations Limited and Subsidiary Companies

Notes to Consolidated Financial Statements for the year ended March 31, 1972

1. Land, Buildings and Equipment

These assets are classified as follows:

	Cost	Accumulated Depreciation	1972 Net	1971 Net
Land	\$ 438,560	\$ —	\$ 438,560	\$ 440,160
Buildings	1,533,812	570,368	963,444	1,038,529
Equipment	<u>8,158,540</u>	<u>2,770,843</u>	<u>5,387,697</u>	<u>5,745,621</u>
	<u><u>\$10,130,912</u></u>	<u><u>\$3,341,211</u></u>	<u><u>\$6,789,701</u></u>	<u><u>\$7,224,310</u></u>

Planned expenditures on fixed assets for the year ending March 31, 1973 which are not reflected in the balance sheet amount to approximately \$2,825,000.

2. Deferred Charges

These comprise:

Unamortized pre-opening expenses (principally relating to the Cara Inn)	1972	1971
.....	\$ 225,676	\$ 292,282
Other project costs and deposits	<u>77,397</u>	<u>117,497</u>
	<u><u>\$ 303,073</u></u>	<u><u>\$ 409,779</u></u>

It is the Companies' policy to defer pre-opening expenses until a location opens for business. The Company is amortizing the Cara Inn pre-opening expenses in equal instalments over the next four years.

3. Long-Term Debt

	1972	1971
Equipment financing contracts, excluding finance charges of \$171,000 (1971 \$282,000), payable in monthly instalments, most of which mature in 3 years (of which \$56,096 was due to the parent company at March 31, 1972 — \$63,845 in 1971)	\$1,104,463	\$1,835,660
Bank loans, secured by book debts and a first floating charge on the assets of the Companies. The scheduled repayment is \$51,666 per month	2,266,667	2,886,667
Mortgages at interest rates of 7% to 10% payable in monthly instalments, maturing by 1976	<u>105,982</u>	<u>121,836</u>
	<u><u>3,477,112</u></u>	<u><u>4,844,163</u></u>
Less: current portion included in current liabilities	<u><u>1,199,470</u></u>	<u><u>1,445,926</u></u>
	<u><u>\$2,277,642</u></u>	<u><u>\$3,398,237</u></u>

4. Long-Term Leases

Minimum rentals, excluding rentals based on sales, under lease agreements or letters of intent with original terms of five years or more, aggregate approximately:

1973-1977	\$11,432,000
1978-1982	7,724,000
1983-1987	5,813,000
1988-1992	4,187,000
1993 and subsequent	4,075,000

Rentals under all leases for premises for the year ended March 31, 1972 amounted to \$4,277,396 (1971 \$3,454,296).

5. Stock Option Plan

47,400 unissued common shares are reserved for allotment under the Company's stock option plan. The option price cannot be less than 90% of the closing price of the stock on the business day immediately prior to the option being granted. The option term is for a period of five years from the date upon which it is granted. During the year, an option to purchase 600 shares at \$4.50 was exercised and additional options to purchase 6,000 shares at \$4.85 were granted. As at March 31, 1972, the following options were outstanding:

Number of Shares	Option Price per Share	Expiry Date
18,700	\$4.50	July 29, 1975
6,000	\$4.85	February 23, 1977

6. Directors' and Senior Officers' Remuneration

The aggregate direct remuneration paid or payable to the directors and senior officers was \$241,825 for the year ended March 31, 1972 (1971 \$236,750).

7. In the opinion of the directors, the Company carried on two classes of business during the year, the amount of sales or revenues of which formed the undernoted proportions of consolidated sales:

	\$	%
Food services and other	40,427,747	84
Retail stores	<u>7,763,225</u>	<u>16</u>
	<u>48,190,972</u>	<u>100</u>

Cara Operations Limited and Subsidiary Companies

Eight Year Financial History
Year Ended March 31, 1972

	1972 \$	1971 \$	1970 \$	1969 \$	1968 \$	1967 \$	1966 \$	1965 \$
SALES	48,190,972	44,220,933	38,154,961	32,210,064	32,702,139	25,635,492	21,618,632	17,839,978
% increase or (decrease) for the year	9.0%	15.9%	18.5%	(1.5%)	27.6%	18.6%	21.2%	16.9%
EARNINGS BEFORE INCOME TAXES	1,310,111	1,727,396	1,691,776	1,236,937	2,223,850	1,349,209	1,021,138	599,016
Per Sales Dollar	2.7%	3.9%	4.4%	3.8%	6.8%	5.3%	4.7%	3.4%
INCOME TAXES	640,000	915,000	890,000	626,856	1,144,519	673,800	467,000	278,394
NET EARNINGS	670,111	812,396	801,776	610,081	1,079,331	675,409	554,138	320,622
Per Sales Dollar	1.4%	1.8%	2.1%	1.9%	3.3%	2.6%	2.6%	1.8%
Per Share	.36	.44	.44	.35	.72	.46	.37	.22
Weighted average of shares outstanding, adjusted for stock splits	1,835,769	1,833,378	1,833,230	1,676,929	1,483,230	1,483,230	1,483,230	1,483,230

